

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1 07)

Unit Name* HUDSON	County* LENAWEE	Type* CITY	MuniCode* 46-2-020
Opinion Date-Use Calendar* Jun 30, 2008	Audit Submitted-Use Calendar* Nov 18, 2008	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts Issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies?
<input checked="" type="checkbox"/> ?	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> \$ 1,428,014.00
General Fund Expenditure:	<input type="checkbox"/> \$ 1,614,825.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="checkbox"/> \$ 454,218.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> \$ 425,928.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* PHILIP	Last Name* RUBLEY	Ten Digit License Number* 1101009223		
CPA Street Address 133 W MAIN STREET	City* MORENCI	State* MI	Zip Code* 49256	Telephone* +1 (517) 458-2274
CPA Firm Name PHILIP R RUBLEY CPA	Unit's Street Address* 121 N CHURCH STREET	Unit's City* HUDSON	Unit's Zip* 49247	

CITY OF HUDSON
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2008

**CITY OF HUDSON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2008**

TABLE OF CONTENTS

	<u>PAGE</u>
 <u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1 - 2
Management Discussion and Analysis	3 - 10
Government – Wide Statement of Net Assets	11
Government – Wide Statement of Activities	12 - 13
Governmental Fund Balance Sheet	14
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	15
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Fund Statement of Net Assets	18
Proprietary Fund Statement of Revenue, Expenses and Changes in Net Assets	19
Reconciliation of the Statement of Revenues, Expenses and Changes in Net Assets of Enterprise Funds to the Statement of Activities	20
Proprietary Fund Statement of Cash Flows	21 - 22
Fiduciary Funds Statement of Net Assets	23
Fiduciary Funds Statement of Changes in Net Assets	24
Notes to Financial Statements	25 - 38
 <u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
Budgetary Comparison Schedule – General Fund	39
Budgetary Comparison Schedule – Ambulance Fund (Major Special Revenue Fund)	40

Budgetary Comparison Schedule – Income Tax Fund (Major Special Revenue Fund)	41
Budgetary Comparison Schedule – Major Street Fund (Special Revenue Fund)	42
Budgetary Comparison Schedule – Local Street Fund (Special Revenue Fund)	43
Combining Balance Sheet – Non-Major Governmental Funds	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds	45

OTHER ADDITIONAL INFORMATION:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	46 – 47
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PHILIP R. RUBLEY

– Certified Public Accountant –

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PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'S
& THE MICHIGAN ASSOCIATION OF C.P.A.'S

September 24, 2008

Honorable Mayor and Members
Members of the City Council
City of Hudson
121 N. Church St.
Hudson, Michigan 49247

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hudson, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hudson, Michigan, management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of Hudson, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

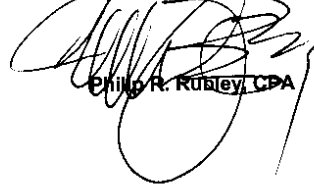
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson, Michigan basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

City of Hudson
September 24, 2008

The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2008, on our consideration of the City's internal control over financial reporting and our tests of compliance and other matters with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully Submitted,



Philip R. Kusley, CPA

PRR/cab

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2008

Using This Annual Report

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of City of Hudson, Michigan government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

Overview Of The Financial Statements

The City's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, ambulance, income tax, major street and local street each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its public works and general maintenance equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains 3 fiduciary funds.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2008

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation and community development. The business-type activities of the City include water and waste water activities reflected in the utilities fund.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority - the Local Development Finance Authority - for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Other Information

The City has reported under required supplementation information, information about the General Fund and Major Type Funds, and Combining Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Type Governmental Funds.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2008

The City As A Whole

The City's net assets for the year ended June 30, 2008 increased by .98% over the prior year, and management feels that even though the economic conditions have been slightly depressed, that the City was fiscally stable.

The governmental activities reflect net assets of \$6,074,485 and the business-type (utilities) of \$3,144,420.

By far the largest portion of the City's net assets (66 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2008

CITY OF HUDSON, MICHIGAN NET ASSETS

Governmental Activities

	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$1,461,449	\$2,266,394
Capital Assets	<u>5,217,954</u>	<u>4,191,027</u>
Total Assets	<u>6,679,403</u>	<u>6,457,421</u>
Long-Term Liabilities Outstanding	425,928	529,125
Other Liabilities	<u>178,990</u>	<u>106,534</u>
Total Liabilities	<u>604,918</u>	<u>635,659</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	4,065,935	3,690,506
Restricted	109,344	86,343
Unrestricted	<u>1,899,206</u>	<u>2,044,913</u>
Total Net Assets	<u>\$6,074,485</u>	<u>\$5,821,762</u>

Business Activities

	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$ 209,798	\$ 206,573
Capital Assets	<u>4,324,659</u>	<u>4,496,723</u>
Total Assets	<u>4,534,457</u>	<u>4,703,296</u>
Long-Term Liabilities Outstanding	1,373,156	1,449,275
Other Liabilities	<u>16,881</u>	<u>19,517</u>
Total Liabilities	<u>1,390,037</u>	<u>1,468,792</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	2,952,994	3,050,058
Restricted	14,878	14,878
Unrestricted	<u>176,548</u>	<u>169,568</u>
Total Net Assets	<u>\$3,144,420</u>	<u>\$3,234,504</u>

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2008

CITY OF HUDSON, MICHIGAN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
<u>Revenue</u>		
Program Revenue:		
Charges for Services	\$1,138,127	\$1,004,893
Operating Grants and Contributions	200,650	186,819
Capital Grants and Contributions	359,350	150,771
General Revenue:		
Property Taxes/Special Assessments	1,018,552	1,060,898
Grants and Contributions Not Restricted To Specific Program	277,955	283,422
Other	<u>84,208</u>	<u>101,136</u>
Total Revenue	<u>3,078,842</u>	<u>2,787,939</u>
<u>Expenses</u>		
General Government	520,421	490,359
Public Safety	766,329	893,647
Public Works	1,019,078	812,525
Community and Economic Development	10,637	12,965
Recreation and Culture	254,286	243,646
Interest on Long-Term Debt	19,846	19,519
Other Functions	<u>117,923</u>	<u>148,099</u>
Total Expenses	<u>2,708,520</u>	<u>2,620,760</u>
Increase In Net Assets Before Transfers	<u>370,322</u>	<u>167,179</u>
Transfers (Out)	<u>(117,599)</u>	<u>(121,277)</u>
Increase In Net Assets	<u>252,723</u>	<u>45,902</u>
Net Assets Beginning of Year	<u>5,821,762</u>	<u>5,775,860</u>
Net Assets End of Year	<u>\$6,074,485</u>	<u>\$5,821,762</u>

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2008

CITY OF HUDSON, MICHIGAN NET ASSETS

	<u>Business-Type Activities</u>	
	<u>2008</u>	<u>2007</u>
<u>Revenue</u>		
Program Revenue:		
Charges for Services	\$ 491,185	\$ 430,333
Operating Grants and Contributions	3,973	---
General Revenue:		
Interest Income	<u>24,874</u>	<u>11,818</u>
Total Revenue	<u>520,032</u>	<u>442,151</u>
<u>Expenses</u>		
Interest on Long-Term Debt	35,443	37,395
Utilities Expenses	<u>704,012</u>	<u>718,607</u>
Total Expenses	<u>739,455</u>	<u>756,002</u>
(Decrease) In Net Assets Before Transfers	<u>(219,423)</u>	<u>(313,851)</u>
Transfers In	<u>129,339</u>	<u>121,277</u>
(Decrease) In Net Assets	<u>(90,084)</u>	<u>(192,574)</u>
Net Assets Beginning of Year	<u>3,234,504</u>	<u>3,427,078</u>
Net Assets End of Year	<u>\$3,144,420</u>	<u>\$3,324,504</u>

Government Activities

Government activities increased the City's net assets by \$252,723.

Business-Type Activities

Business-type activities (decreased) the City's net assets by (\$90,084).

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2008

CITY OF HUDSON, MICHIGAN NET ASSETS

	<u>Component Unit Activities (LDFA)</u>	
	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$ 989,751	\$479,832
Capital Assets	<u>749,479</u>	<u>---</u>
Total Assets	<u>\$1,739,230</u>	<u>\$479,832</u>
<u>Net Assets</u>		
Invested in Capital Assets	\$ 749,479	\$ ---
Unrestricted	<u>989,751</u>	<u>479,832</u>
Total Net Assets	<u>\$1,739,230</u>	<u>\$479,832</u>
<u>Revenue</u>		
Community Development:		
Block Grant	\$ 720,405	\$ ---
Property Taxes	539,794	543,155
Interest Income	<u>18,278</u>	<u>5,600</u>
Total Revenue	<u>1,278,477</u>	<u>548,755</u>
<u>Expenses</u>		
LDFA Expenses	<u>19,079</u>	<u>68,923</u>
Total Expenses	<u>19,079</u>	<u>68,923</u>
Increase in Net Assets	<u>1,259,398</u>	<u>479,832</u>
Net Assets Beginning of Year	<u>479,832</u>	<u>---</u>
Net Assets End of Year	<u>\$1,739,230</u>	<u>\$479,832</u>

Component Unit Activities

Component Unit Activities increased net assets by \$1,259,398.

The City's Funds

Our analysis of the City's funds begins on Page 12, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council and management creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, etc.

**CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2008**

General Fund Budgetary Highlights

Differences between the original budget and amended budget were immaterial.

Capital Assets And Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounted to \$9,542,613 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current year was 9.1%.

Long-term debt of the City decreased by \$201,585 (see Note 8 of the basic financial statements). There was no new debt incurred in the fiscal year ended June 30, 2008.

Economic Factors And Next Year's Budget And Rates

The City's budget for 2008-2009 fiscal year has taken in consideration, the economic condition of the State of Michigan, anticipating reduced state share revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses.

Contacting The City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 121 N. Church Street, Hudson, Michigan 49247.

CITY OF HUDSON, MICHIGAN
Government-wide Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-Type Activities	Total	Component Unit
<u>Assets</u>				
Cash and Equivalents	\$1,857,902	\$ 63,855	\$ 1,921,757	\$ 938,411
Receivables - Net	327,487	114,077	441,564	48,840
Inventory	3,951	14,068	18,019	---
Prepaid Items and Other Assets	21,817	2,691	24,508	2,500
Internal Balances	(229)	229	---	---
Restricted Cash	---	14,878	14,878	---
Capital Assets Not Being Depreciated	150,000	---	150,000	---
Capital Assets Being Depreciated - Net	4,318,475	4,324,659	8,643,134	749,479
Total Assets	6,679,403	4,534,457	11,213,860	1,739,230
<u>Liabilities</u>				
Accounts Payable and Accrued Expenses	178,990	16,881	195,871	---
Long-Term Liabilities:				
Due Within One Year	98,775	80,000	178,775	---
Due In More Than One Year	327,153	1,293,156	1,620,309	---
Total Liabilities	604,918	1,390,037	1,994,955	---
<u>Net Assets</u>				
Invested In Capital Assets, Net of Related Debt	4,065,935	2,952,994	7,018,929	749,479
Restricted For Economic Growth - LDFA	---	---	---	989,751
Debt Service Replacement	109,344	---	109,344	---
Unrestricted	1,899,206	176,548	2,075,754	---
Total Net Assets	\$6,074,485	\$3,144,420	\$ 9,218,905	\$1,739,230

The notes to financial statements are an integral part of this statement.

Page 11

CITY OF HUDSON, MICHIGAN
Government-wide Statement of Activities
For The Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
Primary Government					
<u>Governmental Activities:</u>					
General Government	\$ 520,421	\$ 725,014	\$ 1,430	\$ ---	\$ 206,023
Public Safety	766,329	223,853	---	---	(542,476)
Public Works	1,019,078	110,809	192,440	359,350	(356,479)
Community and Economic Development	10,637	---	---	---	(10,637)
Recreation and Culture	254,286	78,451	6,780	---	(169,055)
Interest on Long-Term Debt	19,846	---	---	---	(19,846)
Other Functions	<u>235,522</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>(235,522)</u>
Total Governmental Activities	<u>2,826,119</u>	<u>1,138,127</u>	<u>200,650</u>	<u>359,350</u>	<u>(1,127,992)</u>
<u>Business-Type Activities:</u>					
Utilities	704,012	491,185	133,312	---	(79,515)
Interest on Long-Term Debt	<u>35,443</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>(35,443)</u>
Total Business-Type Activities	<u>739,455</u>	<u>491,185</u>	<u>133,312</u>	<u>---</u>	<u>(114,958)</u>
Total Primary Government	<u>\$3,565,574</u>	<u>\$1,629,312</u>	<u>\$333,962</u>	<u>\$359,350</u>	<u>\$(1,242,950)</u>
<u>Component Unit:</u>					
LDFA	<u>19,079</u>	<u>---</u>	<u>---</u>	<u>720,405</u>	<u>701,326</u>
Total Component Unit	<u>\$ 19,079</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$720,405</u>	<u>\$ 701,326</u>

The notes to financial statements are an integral part of this statement.

Page 12

CITY OF HUDSON, MICHIGAN
Government-wide Statement Of Activities (Concluded)
For The Year Ended June 30, 2008

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
<u>Changes In Net Assets</u>				
Net (Expense) Revenue	\$ (1,127,992)	\$ (114,958)	\$ (1,242,950)	\$ 701,326
General Revenues:				
Tax Collections	1,018,552	---	1,018,552	539,794
Grants and Contributions Not Restricted To Specific Programs	277,955	---	277,955	---
Earnings and Rentals	<u>84,208</u>	<u>24,874</u>	<u>109,082</u>	<u>18,278</u>
Total General Revenues, Contributions and Transfers	<u>1,380,715</u>	<u>24,874</u>	<u>1,405,589</u>	<u>558,072</u>
Change In Net Assets	252,723	(90,084)	162,639	1,259,398
Net Assets, Beginning of Year	<u>5,821,762</u>	<u>3,234,504</u>	<u>9,056,266</u>	<u>479,832</u>
Net Assets, End of Year	<u>\$ 6,074,485</u>	<u>\$3,114,420</u>	<u>\$ 9,218,905</u>	<u>\$1,739,230</u>

The notes to financial statements are an integral part of this statement.

CITY OF HUDSON, MICHIGAN
Governmental Funds
Balance Sheet
June 30, 2008

	General Fund	Ambulance Fund	Income Tax Fund
<u>Assets</u>			
Cash and Cash Equivalents	\$415,244	\$ ---	\$403,845
Prepaid Expenses	---	---	---
Receivables - Net	90,562	162,139	4,520
Due From Other Funds	4,246	2,219	---
Receivable From Other Governments	33,756	---	---
Inventories	<u>3,951</u>	<u>---</u>	<u>---</u>
Total Assets	<u>\$547,759</u>	<u>\$164,358</u>	<u>\$408,365</u>
<u>Liabilities</u>			
Accounts Payable/			
Accrued Liabilities	\$ 37,999	\$ 80,434	\$ ---
Due to Other Funds	29	6,964	---
Deferred Revenue	<u>54,212</u>	<u>31,946</u>	<u>6,187</u>
Total Liabilities	<u>92,240</u>	<u>119,344</u>	<u>6,187</u>
<u>Fund Balances</u>			
Reserved for			
Debt Service	---	---	---
Unreserved	<u>455,519</u>	<u>45,014</u>	<u>402,178</u>
Total Fund Balances	<u>455,519</u>	<u>45,014</u>	<u>402,178</u>
Total Liabilities and Fund Balances	<u>\$547,759</u>	<u>\$164,358</u>	<u>\$408,365</u>

The notes to financial statements are an integral part of this statement.

Major Street Fund	Local Street Fund	Other Non-Major Governmental Funds	Total Governmental Funds
\$178,658	\$67,128	\$684,225	\$1,749,100
---	19,721	370	20,091
---	---	2,105	259,326
---	---	4,712	11,177
20,885	7,842	---	62,483
---	---	---	3,951
<u>\$199,543</u>	<u>\$94,691</u>	<u>\$691,412</u>	<u>\$2,106,128</u>
 \$ ---	 \$ ---	 \$ 10,067	 \$ 128,500
---	---	50,359	57,352
---	---	1,908	94,253
---	---	<u>62,334</u>	<u>208,105</u>
 ---	 ---	 ---	 ---
<u>199,543</u>	<u>94,691</u>	<u>629,078</u>	<u>1,826,023</u>
<u>199,543</u>	<u>94,691</u>	<u>629,078</u>	<u>1,826,023</u>
<u>\$199,543</u>	<u>\$94,691</u>	<u>\$691,412</u>	<u>\$2,106,128</u>

CITY OF HUDSON, MICHIGAN
Reconciliation of Fund Balances On The Balance Sheet For Governmental Funds
To Net Assets Of Governmental Activities On The Statement of Net Assets
June 30, 2008

Fund Balances – Total Governmental Funds \$ 1,826,023

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital Assets 9,604,394

Deduct: Accumulated Depreciation (5,135,919)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: Net assets of governmental activities accounted for in the internal service fund. 109,596

Certain liabilities, such as bonds payable, notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: Bonds and notes payable (402,540)

Deduct: Accrued interest on bonds (2,210)

Deduct: Compensated absences long-term (23,388)

Revenue that has been billed as a receivable, but not collected until later years, was not reported in the funds.

Add: Deferred Revenue 94,253

Revenue adjustment applicable to intergovernmental revenues, not collected within 60 days of balance sheet date on governmental funds.

4,276

Net Assets of Governmental Activities \$ 6,074,485

CITY OF HUDSON, MICHIGAN
Governmental Funds
Statement of Revenue, Expenditures, and Changes In Fund Balances
For The Year Ended June 30, 2008

	<u>General Fund</u>	<u>Ambulance Fund</u>	<u>Income Tax Fund</u>
<u>Revenues</u>			
Taxes	\$ 483,782	\$ 42,224	\$ 318,511
Intergovernmental	273,679	---	---
Grants	1,430	---	---
Licenses and Permits	13,659	---	---
Fines and Forfeitures	17,010	---	---
Charges for Services	131,759	137,919	---
Interest and Rentals	26,688	484	15,899
Contributions From Local Units	---	---	---
Other	480,007	6,848	---
Ambulance Loan Proceeds	---	---	---
Total Revenue	<u>1,428,014</u>	<u>187,475</u>	<u>334,410</u>
<u>Expenditures</u>			
Current:			
General Government	385,456	---	45,774
Public Safety	336,536	232,545	---
Public Works	598,369	---	---
Community Economic Development	1,638	---	---
Recreation and Culture	---	---	---
Capital Outlay	---	6,000	---
Other Functions	117,923	---	---
Debt Service:			
Principal Payments	---	17,972	---
Interest Payments	---	5,330	---
Total Expenditures	<u>1,439,922</u>	<u>261,847</u>	<u>45,774</u>
Excess of Revenue Over (Under) Expenditures	(11,908)	(74,372)	288,636
Other Financing Sources (Uses)			
Transfers In	---	---	---
Transfers Out	(174,903)	---	(350,795)
Total Other Financing Sources (Uses)	<u>(174,903)</u>	<u>---</u>	<u>(350,795)</u>
Net Change In Fund Balances (Decrease)	(186,811)	(74,372)	(62,159)
Fund Balances – Beginning of Year	<u>641,029</u>	<u>119,386</u>	<u>464,337</u>
Fund Balances – End of Year	<u>\$ 454,218</u>	<u>\$ 45,014</u>	<u>\$ 402,178</u>

The notes to financial statements are an integral part of this statement.

Major Street Fund	Local Street Fund	Other Non-Major Governmental Funds	Total Governmental Funds
\$ ---	\$ ---	\$ 175,076	\$1,019,593
144,580	47,860	3,280	469,399
359,350	---	---	360,780
---	---	---	13,659
---	---	27,798	44,808
---	---	121,904	391,582
2,632	2,810	35,695	84,208
---	---	3,500	3,500
---	---	90,414	577,269
---	---	---	---
<u>506,562</u>	<u>50,670</u>	<u>457,667</u>	<u>2,964,798</u>
---	---	34,464	465,694
---	---	58,801	627,882
121,807	82,164	---	802,340
---	---	8,999	10,637
---	---	236,732	236,732
499,133	8,315	141,016	654,464
---	---	---	117,923
---	---	80,000	97,972
---	---	13,365	18,695
<u>620,940</u>	<u>90,479</u>	<u>573,377</u>	<u>3,032,339</u>
(114,378)	(39,809)	(115,710)	(67,541)
176,456	60,500	241,643	478,599
(30,500)	---	(40,000)	(596,198)
<u>145,956</u>	<u>60,500</u>	<u>201,643</u>	<u>(117,599)</u>
31,578	20,691	85,933	(185,140)
<u>167,965</u>	<u>74,000</u>	<u>543,144</u>	<u>2,009,861</u>
<u>\$199,543</u>	<u>\$ 94,691</u>	<u>\$ 629,077</u>	<u>\$1,824,721</u>

CITY OF HUDSON, MICHIGAN
Reconciliation Of The Statement Of Revenues, Expenditures,
And Changes In Fund Balances Of Governmental Statement Of Activities
June 30, 2008

Net Change In Fund Balances – Total Governmental Funds \$(185,140)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital Outlay 654,464

Deduct: Depreciation Expense (377,016)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increase long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: Principal payments on long-term liabilities 97,972

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: (Increase) in interest payable on bonds and notes (1,151)

Add: Decrease in compensated absences long-term 5,216

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: Increase in net assets of governmental activities accounted for in the internal service fund 55,143

Revenue deferred on the governmental funds report, which has been charged to receivable and thus income on the statement of activities. (1,041)

Additional receivables not on the governmental fund report applicable to intergovernmental revenues to be received.

Add: Increase in receivable over prior year receivable. 4,276

Change In Net Assets Of Governmental Activities \$ 252,723

CITY OF HUDSON, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Utilities Fund	Internal Service Fund
<u>Assets</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 57,375	\$115,282
Due from Other Funds	229	---
Accounts Receivable	114,077	1,402
Inventory	14,068	---
Prepaid Interest	2,691	---
Non-Current Assets:		
Restricted Cash	14,878	---
Property and Equipment - Net	<u>4,324,659</u>	<u>77,384</u>
Total Non-Current Assets	<u>4,339,537</u>	<u>77,384</u>
Total Assets	<u>\$4,527,977</u>	<u>\$194,068</u>
<u>Liabilities</u>		
Current Liabilities:		
Due to Other Funds	\$ ---	\$ ---
Accounts Payable and Accrued Liabilities/Deposits	16,881	608
Accrued Equipment Rent	---	---
Bonds Payable, Current Portion	<u>80,000</u>	<u>---</u>
Total Current Liabilities	<u>96,881</u>	<u>608</u>
Non-Current Liabilities:		
Bonds Payable	1,291,665	---
Compensated Absences	<u>1,491</u>	<u>---</u>
Total Non-Current Liabilities	<u>1,293,156</u>	<u>---</u>
Total Liabilities	<u>1,390,037</u>	<u>608</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	2,952,994	77,384
Restricted for Replacement	14,878	---
Unrestricted (Deficit)	<u>170,068</u>	<u>116,076</u>
Total Net Assets	3,137,940	<u>\$193,460</u>
Adjustment to Reflect The Consolidation of Internal Service Fund Activities Related to Enterprise Funds	<u>6,480</u>	
Net Assets of Business-Type Activities on the Government-Wide Statement of Net Assets	<u>\$3,144,420</u>	

The accompanying notes are an integral part of this financial statement.

CITY OF HUDSON, MICHIGAN
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended June 30, 2008

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
<u>Operating Revenues</u>		
Charges for Services	\$ 491,185	\$117,289
<u>Liabilities</u>		
Salaries and Wages	85,940	---
Fringe Benefits	43,314	---
Office Expenses	197,727	11,149
Contractual Services	11,168	103
Supplies and Materials	56,366	39,966
Utilities	71,428	---
Depreciation	223,515	16,347
Repairs/Maintenance	14,045	10,935
Other Expenses	1,505	310
Total Operating Expenses	<u>705,008</u>	<u>78,810</u>
Operating Income (Loss)	<u>(213,823)</u>	<u>38,479</u>
<u>Non-Operating Revenues (Expenses)</u>		
Investment Income	7,242	---
Interest Expense	(35,443)	---
Other - Miscellaneous	21,605	---
Total Non-Operating Revenues (Expenses)	<u>(6,596)</u>	<u>---</u>
<u>Other Financing Sources</u>		
Transfer In	129,339	---
Total Other Financing Sources	<u>129,339</u>	<u>---</u>
Income (Loss)	(91,080)	38,479
Net Assets, Beginning of Year	<u>3,229,020</u>	<u>154,981</u>
Net Assets, End of Year	<u>\$3,137,940</u>	<u>\$193,460</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HUDSON, MICHIGAN
Reconciliation Of The Statement Of Revenues, Expenditures, To The Statement Of Activities
June 30, 2008

<u>Change In Net Assets – All Enterprise Funds</u>	\$ (91,080)
An internal service fund is used by management to charge the cost of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with the business-type activities	<u>996</u>
Change In Net Assets Of Business-Type Activities	<u>\$ (90,084)</u>

CITY OF HUDSON, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2008

	Business-Type Activities Enterprise Funds	Governmental Activities
	Utilities Fund	Internal Service Fund
<u>Cash Flows From Operating Activities</u>		
Cash Received from Customers	\$ 491,988	\$ ---
Cash Received Miscellaneous	20,605	118,162
Cash Payment to Suppliers For		
Goods and Services/Employees	<u>(485,249)</u>	<u>(61,855)</u>
Net Cash Provided (Used)	<u>27,344</u>	<u>56,307</u>
<u>Cash Flows From Capital and</u>		
<u>Related Financing Activities</u>		
Purchase of Capital Assets	(51,450)	---
Bond Principal Payments	(75,000)	---
Bond Interest Payments	<u>(34,771)</u>	<u>---</u>
Net Cash (Used) by Capital and		
Related Financing Activities)	<u>(161,221)</u>	<u>---</u>
<u>Cash Flows From Investing Activities</u>		
Investment Income	7,242	---
Transfers from Other Funds	<u>129,339</u>	<u>---</u>
Net Cash Provided (Used) by		
Investing Activities	<u>136,581</u>	<u>---</u>
<u>Net Increase (Decrease) in Cash and</u>		
<u>Cash Equivalents</u>	2,704	56,307
Cash and Cash Equivalents, Beginning of Year	<u>54,671</u>	<u>58,975</u>
Cash and Cash Equivalents, End of Year	<u>\$ 57,375</u>	<u>\$115,282</u>
<u>Reconciliation to Statement of Net Assets</u>		
Cash and Cash Equivalents	\$ 57,375	\$115,282
	<u>\$ 57,375</u>	<u>\$115,282</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HUDSON, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For The Year Ended June 30, 2008

	Business-Type Activities - <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
<u>Reconciliation of Operating Income (Loss)</u>		
<u>to Net Cash Provided by Operating Activities:</u>		
Operating Income (Loss)	\$ (91,080)	\$ 38,479
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	223,515	16,347
Changes in Assets and Liabilities:		
Accounts Receivable, Etc.	475	873
Accounts Payable and Accrued Liabilities	<u>(2,637)</u>	<u>608</u>
Net Cash Provided (Used) by Operating Activities	<u>130,273</u>	<u>56,307</u>
<u>Cash Flows from Capital Activities:</u>		
Acquisition of Capital Assets	<u>(51,450)</u>	<u>---</u>
Net Cash (Used) from Capital Activities	<u>(51,450)</u>	<u>---</u>
<u>Cash Flows From Financing Activities:</u>		
Principal Paid on Bonds	(75,000)	---
Compensated Absences	<u>(1,119)</u>	<u>---</u>
Net Cash (Used) from Financing Activities	<u>(76,119)</u>	<u>---</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,704	56,307
Cash and Cash Equivalents, Beginning of Year	<u>54,671</u>	<u>58,975</u>
Cash and Cash Equivalents, End of Year	<u>\$ 57,375</u>	<u>\$115,282</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HUDSON, MICHIGAN
Fiduciary Funds – Statement of Net Assets
June 30, 2008

	<u>Employee Benefit Funds</u>	<u>Library Trust</u>	<u>Other Agency Funds</u>
<u>Assets</u>			
Cash and Cash Equivalents	<u>\$1,726</u>	<u>\$89,188</u>	<u>\$82,094</u>
Total Assets	<u>\$1,726</u>	<u>\$89,188</u>	<u>\$82,094</u>
<u>Liabilities</u>			
Other Payables	<u>\$1,726</u>	<u>\$ ---</u>	<u>\$82,094</u>
Total Liabilities	<u>\$1,726</u>	<u>---</u>	<u>\$82,094</u>
<u>Net Assets</u>			
Held In Trust for Library Operations		<u>\$89,188</u>	

The notes to financial statements are an integral part of this statement.

Page 23

CITY OF HUDSON, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds – Library Trust Fund
For The Year Ended June 30, 2008

Additions

Investment Income:	
Interest Earned	\$ 325
Contributions	<u>14,669</u>
Total Investment Income	<u>14,994</u>

Deductions

Library Books and Expense	<u>20,559</u>
Total Deductions	<u>20,559</u>

Excess Additions Over Deductions (5,565)

Net Assets Held in Trust, Beginning of Year 94,753

Net Assets Held in Trust, End of Year \$89,188

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Hudson, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

City of Hudson, Michigan is governed by an elected council. The accompanying financial statements present the government for which government is considered to be financially accountable.

Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Units – The local development Finance Authority of the City of Hudson, Michigan (LDFA) is governed by a board consisting of members appointed by the City Manager (subject to City Council approval). The LDFA was formed to promote economic growth in the City of Hudson, Michigan pursuant to Public Act 281 of 1986. The City also has a downtown development authority.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Ambulance Fund is a special Revenue Fund that receives monies for contractual services and charges for the purpose of providing Advanced and Basic Life Support Services to the community.

The Income Tax Fund is a Special Revenue Fund that receives monies from residents, non-residents and businesses performing or operating within the City limits of Hudson, Michigan. These monies have been used for special projects, capital in nature.

The Major Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The Local Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The government reports the following major proprietary funds:

The Utilities Fund accounts for acquisition, operation and maintenance of the City's waste water and water system.

Additionally, the government reports the following fund types:

The Agency Funds account for assets held by the City acting as an agent for individuals, private organizations, other governments and/or other funds.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Funds are charges to customers for sales and services. The Utilities Funds also recognize, as operating revenues, the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets or Equity

1. **Bank Deposits and Investment** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."
3. **Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.
4. **Inventories** – All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

5. **Restricted Assets** – Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.

6. **Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

7. **Compensated Absences** – It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirement.

8. **Long-Term Obligations** – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. **Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. **Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of May of each year, the City Manager presents the proposed budget for review and holds public hearings and a final budget is adopted.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the City Council.

- B. **Excess of Expenditures Over Appropriations in Budgeted Funds** - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2008, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
City Attorney	\$18,550	\$ 21,668	\$ 3,118
Clerk	70,722	73,086	2,364
City Manager	74,958	79,042	4,084
Assessing	16,800	17,370	570
Public Works:			
Leaf Pickup	10,500	13,435	2,935
Refuse Collection	97,850	107,351	9,501

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS

The City has the following deposits which are carried at cost plus interest. The City does not have a deposit policy. The City investments are in accordance with statutory authority.

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ 300,000
Uninsured and Uncollateralized	<u>1,703,851</u>
	<u>\$2,003,851</u>

The above amounts include fiduciary funds of \$82,094.

CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk, is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2008 - \$1,703,851 of the City's bank balance of \$2,003,851 was exposed to custodial risk.

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

Statement of Net Asset:	
Cash and Cash Equivalents	<u>\$1,921,757</u>
	<u>1,921,757</u>
Statement of Fiduciary Net Asset:	
Agency Funds:	
Cash and Cash Equivalents	<u>82,094</u>
	<u>82,094</u>
	<u>\$2,003,851</u>

Concentration of Credit Risk

State Law limits allowable investments but does not limit concentration of credit risk. The City's investment policy does not have specific limits in excess of State Law on concentration of credit risk.

Interest Rate Risk

State Law limits the allowable investment and maturities of some investments. The City's investment policy mirrors the State statute as indicated above. The City's investment policy does not address interest rate risk. All investments are short term.

Credit Risk

State Law limits investments as indicated above. The City's investment policy does not have specific limits in excess of the State Law on investment credit risk.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Other	\$ 150,000	\$ ---	\$ ---	\$ 150,000
	<u>150,000</u>	<u>---</u>	<u>---</u>	<u>150,000</u>
Capital Assets, Being Depreciated:				
Buildings	1,720,501	107,118	---	1,827,619
Vehicles	1,536,806	---	---	1,536,806
Equipment	1,584,132	39,897	---	1,624,029
Infrastructure	3,958,491	507,449	---	4,465,940
Total Capital Assets Being Depreciated	<u>8,799,930</u>	<u>654,464</u>	<u>---</u>	<u>9,454,394</u>
Less Accumulated Depreciation For:				
Buildings	(645,525)	(38,270)	---	(683,795)
Vehicles	(676,963)	(86,977)	---	(763,940)
Equipment	(936,485)	(92,028)	---	(1,028,513)
Infrastructure	(2,499,930)	(159,741)	---	(2,659,671)
Total Accumulated Depreciation	<u>(4,758,903)</u>	<u>(377,016)</u>	<u>---</u>	<u>(5,135,919)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,041,027</u>	<u>277,448</u>	<u>---</u>	<u>4,318,475</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,191,027</u>	<u>\$ 277,448</u>	<u>\$ ---</u>	<u>\$ 4,468,475</u>
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 33,600	\$ ---	\$ ---	\$ 33,600
	<u>33,600</u>	<u>---</u>	<u>---</u>	<u>33,600</u>
Capital Assets, Being Depreciated:				
Buildings and Systems	8,313,140	51,450	---	8,364,590
Equipment	410,461	---	---	410,461
Total Capital Assets Being Depreciated	<u>8,723,601</u>	<u>51,450</u>	<u>---</u>	<u>8,775,051</u>
Less Accumulated Depreciation For:				
Buildings	(3,969,437)	(213,690)	---	(4,183,127)
Equipment	(291,041)	(9,824)	---	(300,865)
Total Accumulated Depreciation	<u>(4,260,478)</u>	<u>(223,514)</u>	<u>---</u>	<u>(4,483,992)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,463,123</u>	<u>(172,064)</u>	<u>---</u>	<u>4,291,059</u>
Business Type Activities Capital Assets, Net	<u>\$ 4,496,723</u>	<u>\$ (172,064)</u>	<u>\$ ---</u>	<u>\$ 4,324,659</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

NOTE 4 – CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Component Unit Activities</u>				
Capital Assets				
Being Depreciated:				
Equipment	\$ ---	\$750,730	\$ ---	\$750,730
Total Capital Assets Being Depreciated	---	750,730	---	750,730
Less Accumulated				
Depreciation For:				
Equipment	---	(1,251)	---	(1,251)
Total Accumulated Depreciation	---	(1,251)	---	(1,251)
Total Capital Assets, Being Depreciated, Net	---	749,479	---	749,479
Component Unit Activities Capital Assets, Net	\$ ---	\$749,479	\$ ---	\$749,479

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:

General Government	\$ 45,725
Public Safety	138,842
Public Works	161,160
Culture and Recreation	16,193
Capital Assets Held By The Government's Internal Service Funds Are Charged To The Various Functions Based On Their Usage Of The Assets.	<u>16,347</u>

Total Depreciation Expense Governmental Activities	<u>\$378,267</u>
---	-------------------------

Business-Type Activities:

Utilities	<u>\$223,514</u>
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Total Depreciation Expense Business-Type Activities	<u>\$223,514</u>
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Component Unit Activities:

Equipment	<u>\$ 1,251</u>
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Total Depreciation Expense Component Unit Activities	<u>\$ 1,251</u>
---	------------------------

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2008, the following were interfund receivables and payables in the fund statement.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 4,245	\$ ---
Collectors Fund	8,000	---
Utilities	229	---
Fire	---	2,686
Debt Service Fund	4,712	39,673
Ambulance	2,219	6,964
LDFA Fund	39,673	---
Sidewalk Fund	---	29
Flex Fund	---	1,726
Downtown Development	<u>---</u>	<u>8,000</u>
	<u>\$59,078</u>	<u>\$59,078</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

NOTE 6 – TRANSFERS

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted, to or allowed for debt services from the funds collecting the receipts to the debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs, accounted for in other funds in accordance with budgetary authorizations.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Summer Recreation	\$ 14,500	\$ ---
General	---	174,903
Income Tax	---	350,795
Major Street	176,456	30,500
Local	60,500	---
Library	162,645	---
Utilities	129,339	---
Fire	26,044	---
Cemetery	7,254	---
Community Center	19,460	11,740
Thompson Library	---	40,000
DDA	11,740	---
	<u>\$607,938</u>	<u>\$607,938</u>

NOTE 7 – PROPERTY TAXES:

The City bills and collects its own property taxes and also taxes for the County and several School Districts within its jurisdiction. Collections and remittances of the County and School taxes are accounted for in the Current Tax Collection Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

Property taxes are assessed December 31st and are levied on June 1st. Taxes become delinquent on August 31st with a 1% interest charge beginning October 1st. All delinquent taxes are charged with a 4% penalty.

The City currently levies 11.6419 mills. Property taxes attach as an enforceable lien on the property as of January 1.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

NOTE 8 – LONG TERM DEBT

Long-term debt consists of the following:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Bonds Payable - 2004 Local Development Refunding Bonds - General Obligation Limited Tax	\$ 380,000	\$ ---	\$ 80,000	\$ 300,000
Bonds Payable - 2001 Drinking Water Program	1,446,665	---	75,000	1,371,665
Compensated Absences	28,604	23,388	28,604	23,388
Note Payable - Ambulance	120,521	---	17,981	102,540
Total	<u>\$1,975,790</u>	<u>\$23,388</u>	<u>\$201,585</u>	<u>\$1,797,593</u>

Ambulance – Type III – 164 Commando

Title of Issue: Ambulance - Note Payable - Hillsdale County National Bank
Purpose: Purchase Ambulance
Date of Note: August 1, 2006
Maturity of Note: March 15, 2013
Interest Rate: 4.35%
Payments: Annually at \$23,302 including interest - starting March 15, 2007
Amount of Note: \$140,000

<u>Due Date</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
March 15, 2009	\$ 23,302	\$ 4,527	\$ 18,775
March 15, 2010	23,302	3,698	19,604
March 15, 2011	23,302	2,832	20,470
March 15, 2012	23,302	1,929	21,373
March 15, 2013	23,302	984	22,318
	<u>\$116,510</u>	<u>\$13,970</u>	<u>\$102,540</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

City of Hudson – Drinking Water Bond Issue

Title of Issue: City of Hudson Drinking Water Program General
Obligation Bonds
Purpose: Drinking Water, etc.
Date of Issue: June 28, 2001
Interest Rate: 2.50%
Interest Payable: Semi-Annual on October 1, and April 1, of each year
Amount of Issue: \$1,731,665
Available Funds: \$38,335

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
October 1, 2008	\$ 96,370	\$ 16,370	\$ 80,000
April 1, 2009	15,370	15,370	
October 1, 2009	95,370	15,370	80,000
April 1, 2010	14,370	14,370	
October 1, 2010	94,370	14,370	80,000
April 1, 2011	13,370	13,370	
October 1, 2011	98,370	13,370	85,000
April 1, 2012	12,308	12,308	
October 1, 2012	97,308	12,308	85,000
April 1, 2013	11,245	11,245	
October 1, 2013	101,245	11,245	90,000
April 1, 2014	10,120	10,120	
October 1, 2014	100,120	10,120	90,000
April 1, 2015	8,995	8,995	
October 1, 2015	103,995	8,995	95,000
April 1, 2016	7,808	7,808	
October 1, 2016	102,808	7,808	95,000
April 1, 2017	6,620	6,620	
October 1, 2017	106,620	6,620	100,000
April 1, 2018	5,370	5,370	
October 1, 2018	105,370	5,370	100,000
April 1, 2019	4,120	4,120	
October 1, 2019	109,120	4,120	105,000
April 1, 2020	2,870	2,870	
October 1, 2020	107,870	2,870	105,000
April 1, 2021	1,495	1,495	
October 1, 2021	111,495	1,495	110,000
April 1, 2022	120	120	
October 1, 2022	<u>71,785</u>	<u>120</u>	<u>71,665</u>
	<u>\$1,616,397</u>	<u>\$244,732</u>	<u>\$1,371,665</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

Industrial Park Bonds

Title of Issue: 2004 Local Development Refunding Bonds - General Obligation Limited Tax
Purpose: Park Development
Date of Issue: December 1, 2004
Maturity Date: June 1, 2012
Interest Rate: 1.5% to 3.875%
Interest Payable: Semi-Annually
Amount of Issue: \$590,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
December 1, 2008	\$ 5,543	\$ 5,543	\$
June 1, 2009	85,543	5,543	80,000
December 1, 2009	4,263	4,263	
June 1, 2010	4,263	4,263	---
December 1, 2010	4,263	4,263	
June 1, 2011	4,263	4,263	---
December 1, 2011	4,263	4,263	
June 1, 2012	<u>224,263</u>	<u>4,263</u>	<u>220,000</u>
	<u>\$336,664</u>	<u>\$36,664</u>	<u>\$300,000</u>

Maturities of Long-Term Debt

Maturities for the next five years of long-term debt are as follows:

<u>Years</u>	<u>Amounts</u>
2009	178,775
2010	99,604
2011	100,470
2012	326,373
2013	107,318
There After	<u>961,665</u>
	<u>\$1,774,205</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2008

NOTE 9 – CAFETERIA PLAN – MEDICAL REIMBURSEMENT PLAN – DEPENDENT CARE PLAN

The City of Hudson has approved and adopted the Cafeteria Plan, Medical Expense Reimbursement Plan and Dependent Care Assistance Plan to be effective January 1, 1998.

The City of Hudson adopted a Cafeteria Plan under Internal Revenue Service Code SS 125, a Medical Expense Reimbursement Plan under code SS 105 (b) and an Dependent Care Assistance Plan Under Code SS 129. Each full-time employee is eligible to participate in each of the plans established. The maximum reimbursement for which any participant may apply under the Medical Expense Reimbursement Plan is \$3,000. The maximum reimbursement for which any participant may apply under the Dependent Care Assistance Plan is \$5,000.

The City of Hudson does not contribute to the Cafeteria Plan.

NOTE 10 – PENSION PLAN

The City of Hudson has a qualified 401(k) plan, administered by ICMA-RC.

Contributions are made by the City and employees. The Plan is blended between growth funds, cash management and government investments. Value in the 401k plan at December 31, 2007 was \$565,098. Contribution by the City for calendar year 2007 was \$51,131 and distribution was \$78,622.

NOTE 11 – OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ 641,029	\$ 641,029	\$ 641,029	\$ ---
<u>Resources (Inflows)</u>				
Taxes and Assessments	604,180	604,180	483,782	(120,398)
Intergovernmental	253,312	253,312	273,679	20,367
Grants	800	800	1,430	630
Licenses and Permits	25,700	25,700	13,659	(12,041)
Fines and Forfeitures	17,000	17,000	17,010	10
Charges for Services	113,750	113,750	131,759	18,009
Interest and Rentals	32,552	32,552	26,688	(5,864)
Other	431,800	431,800	481,308	49,508
Transfers from Other Funds	---	---	---	---
<u>Amounts Available for Appropriation</u>	<u>2,120,123</u>	<u>2,120,123</u>	<u>2,070,344</u>	<u>(49,779)</u>
<u>Charges to Appropriations (Outflows)</u>				
<u>General Government</u>				
City Council	16,743	16,743	12,700	4,043
City Manager	74,958	74,958	79,042	(4,084)
Office Operations	96,080	96,080	95,003	1,077
Treasurer	69,267	69,267	69,122	145
Assessing	16,800	16,800	17,370	(570)
Clerk	70,722	70,722	73,086	(2,364)
Elections	4,700	4,700	1,593	3,107
City Attorney/Auditing	21,050	21,050	24,168	(3,118)
Buildings and Grounds	16,500	16,500	13,372	3,128
<u>Public Safety</u>				
Police	325,826	325,826	327,578	(1,752)
Inspections	13,500	13,500	8,958	4,542
<u>Community Economic Development</u>	<u>4,767</u>	<u>4,767</u>	<u>1,638</u>	<u>3,129</u>
<u>Public Works</u>				
Sanitary Landfill	5,500	5,500	5,000	500
Street Maintenance & Lighting	475,881	475,881	472,583	3,298
Leaf Pickup	10,500	10,500	13,435	(2,935)
Refuse Collection	97,850	97,850	107,351	(9,501)
<u>Other Functions</u>	<u>130,216</u>	<u>130,216</u>	<u>117,923</u>	<u>12,293</u>
<u>Transfers to Other Funds</u>	<u>175,378</u>	<u>175,378</u>	<u>174,903</u>	<u>475</u>
<u>Total Charges to Appropriations</u>	<u>1,626,238</u>	<u>1,626,238</u>	<u>1,614,825</u>	<u>11,413</u>
<u>Ending of Year Fund Balance</u>	<u>\$ 493,885</u>	<u>\$ 493,885</u>	<u>\$ 455,519</u>	<u>\$ (38,366)</u>

The notes to financial statements are an integral part of this statement.

Page 39

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Ambulance Fund (Major Special Revenue Funds)
For The Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ ---	\$ ---	\$119,386	\$119,386
<u>Resources (Inflows)</u>				
Taxes	111,545	111,545	42,224	(69,321)
Charges For Services	175,000	175,000	137,919	(37,081)
Other	1,000	1,000	6,848	5,848
Interest Income	1,000	1,000	484	(516)
Ambulance Loan Proceeds	---	---	---	---
<u>Amounts Available for Appropriation</u>	<u>288,545</u>	<u>288,545</u>	<u>306,861</u>	<u>18,316</u>
<u>Charges to Appropriations (Outflows)</u>				
<u>Public Safety</u>				
Ambulance	233,780	233,780	232,545	1,235
Capital Outlay	20,000	20,000	6,000	14,000
<u>Debt Service:</u>				
Principle Payments	18,000	18,000	17,972	28
Interest Payments	<u>6,000</u>	<u>6,000</u>	<u>5,330</u>	<u>670</u>
<u>Total Charges to Appropriations</u>	<u>277,780</u>	<u>277,780</u>	<u>261,847</u>	<u>15,933</u>
<u>Ending of Year Fund Balance</u>	<u>\$ 10,765</u>	<u>\$ 10,765</u>	<u>\$ 45,014</u>	<u>\$ 34,249</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Income Tax Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ ---	\$ ---	\$464,337	\$464,337
<u>Resources (Inflows)</u>				
Taxes	390,500	390,500	318,511	(71,989)
Interest and Rentals	<u>8,417</u>	<u>8,417</u>	<u>15,899</u>	<u>7,482</u>
<u>Amounts Available for Appropriation</u>	<u>398,917</u>	<u>398,917</u>	<u>798,747</u>	<u>399,830</u>
<u>Charges to Appropriations (Outflows)</u>				
General Government	47,275	47,275	45,774	1,501
Transfers to Other Funds	<u>351,295</u>	<u>351,295</u>	<u>350,795</u>	<u>500</u>
<u>Total Charges to Appropriations</u>	<u>398,570</u>	<u>398,570</u>	<u>396,569</u>	<u>2,001</u>
<u>Ending of Year Fund Balance</u>	\$ <u>347</u>	\$ <u>347</u>	<u>\$402,178</u>	<u>\$401,831</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Major Street Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$167,964	\$167,964	\$167,965	\$ 1
<u>Resources (Inflows)</u>				
Intergovernmental	124,000	124,000	144,580	20,580
Interest and Rentals	1,000	1,000	2,632	1,632
Other	21,500	21,500	---	(21,500)
Transfers from Other Funds	186,456	186,456	176,456	(10,000)
COBG Grant	<u>359,350</u>	<u>359,350</u>	<u>359,350</u>	<u>---</u>
<u>Amounts Available for Appropriation</u>	<u>860,270</u>	<u>860,270</u>	<u>850,983</u>	<u>(9,287)</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	661,806	661,806	620,940	40,866
Transfers to Other Funds	30,500	30,500	30,500	---
Capital Outlay	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
<u>Total Charges to Appropriations</u>	<u>692,306</u>	<u>692,306</u>	<u>651,440</u>	<u>40,866</u>
<u>Ending of Year Fund Balance</u>	<u>\$167,964</u>	<u>\$167,964</u>	<u>\$199,543</u>	<u>\$ 31,579</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Local Street Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ 74,000	\$ 74,000	\$ 74,000	\$ ---
<u>Resources (Inflows)</u>				
Intergovernmental	37,047	37,047	47,860	10,813
Other	---	---	---	---
Transfers from Other Funds	60,500	60,500	60,500	---
Interest Income	---	---	2,810	2,810
<u>Amounts Available for Appropriation</u>	<u>171,547</u>	<u>171,547</u>	<u>185,170</u>	<u>13,623</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	105,547	105,547	90,479	15,068
Capital Outlay	---	---	---	---
<u>Total Charges to Appropriations</u>	<u>105,547</u>	<u>105,547</u>	<u>90,479</u>	<u>15,068</u>
<u>Ending of Year Fund Balance</u>	<u>\$ 66,000</u>	<u>\$ 66,000</u>	<u>\$ 94,691</u>	<u>\$28,691</u>

CITY OF HUDSON, MICHIGAN
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2008

	<u>Special Revenue Funds</u>			
	<u>Downtown Development</u>	<u>Fire</u>	<u>Summer Recreation</u>	<u>Cemetery</u>
<u>Assets</u>				
Cash	\$67,185	\$140,752	\$24,777	\$43,135
Receivables:				
Interest	---	1,000	---	---
Prepaid Expenses	---	370	---	---
Due from Other Funds	---	---	---	---
Total Assets	<u>\$67,185</u>	<u>\$142,122</u>	<u>\$24,777</u>	<u>\$43,135</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	\$ ---	\$ 1,748	\$ 447	\$ 1
Deposits Payable	---	---	---	---
Accrued Liabilities	---	---	656	---
Deferred Revenues	---	1,908	---	---
Due to Other Funds	<u>8,000</u>	<u>2,686</u>	<u>---</u>	<u>---</u>
Total Liabilities	<u>8,000</u>	<u>6,342</u>	<u>1,103</u>	<u>1</u>
<u>Fund Balance</u>	<u>59,185</u>	<u>135,780</u>	<u>23,674</u>	<u>43,134</u>
Total Liabilities And Fund Balances	<u>\$67,185</u>	<u>\$142,122</u>	<u>\$24,777</u>	<u>\$43,135</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Community Center</u>	<u>Library</u>	<u>Museum</u>	<u>Debt Service</u>	<u>Cemetery Perpetual Care</u>	
\$9,586	\$126,590	\$126,097	\$144,305	\$1,798	\$684,225
18	415	665	---	7	2,105
---	---	---	---	---	370
---	---	---	4,712	---	4,712
<u>\$9,604</u>	<u>\$127,005</u>	<u>\$126,762</u>	<u>\$149,017</u>	<u>\$1,805</u>	<u>\$691,412</u>
\$ 191	\$ 940	\$ ---	\$ ---	\$ ---	\$ 3,327
2,725	---	---	---	---	2,725
---	3,359	---	---	---	4,015
---	---	---	---	---	1,908
---	---	---	39,673	---	50,359
<u>2,916</u>	<u>4,299</u>	<u>---</u>	<u>39,673</u>	<u>---</u>	<u>62,334</u>
<u>6,688</u>	<u>122,706</u>	<u>126,762</u>	<u>109,344</u>	<u>1,805</u>	<u>629,078</u>
<u>\$9,604</u>	<u>\$127,005</u>	<u>\$126,762</u>	<u>\$149,017</u>	<u>\$1,805</u>	<u>\$691,412</u>

CITY OF HUDSON, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2008

Special Revenue Funds

	<u>Downtown Development</u>	<u>Fire</u>	<u>Summer Recreation</u>	<u>Cemetery</u>
<u>Revenues:</u>				
Taxes	\$53,053	\$ ---	\$ ---	\$ ---
Intergovernmental	---	---	---	---
Grants	---	---	---	---
Contribution from Local Units	---	---	---	---
Charges for Services	---	48,417	50,653	22,834
Fines and Forfeits	---	---	---	---
Interest and Rents	84	2,622	---	1,447
Other Revenue	<u>25,332</u>	<u>1,683</u>	<u>312</u>	<u>13,000</u>
Total Revenue	<u>78,469</u>	<u>52,722</u>	<u>50,965</u>	<u>37,281</u>
<u>Expenditures:</u>				
General Government	---	---	---	34,464
Public Safety	---	58,801	---	---
Recreational and Cultural	---	---	44,889	---
Community Economic Development	1,979	---	---	---
Capital Outlay	<u>41,112</u>	<u>26,817</u>	<u>7,080</u>	<u>---</u>
Debt Service:				
Principal	---	---	---	---
Interest	---	---	---	---
Total Expenditures	<u>43,091</u>	<u>85,618</u>	<u>51,969</u>	<u>34,464</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>35,378</u>	<u>(32,896)</u>	<u>(1,004)</u>	<u>2,817</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	11,740	26,044	14,500	7,254
Operating Transfers (Out)	---	---	---	---
Total Other Financing Sources (Uses)	<u>11,740</u>	<u>26,044</u>	<u>14,500</u>	<u>7,254</u>
<u>Excess of Revenues and Other Sources Over (Under) (Expenditures and Other Uses)</u>	<u>47,118</u>	<u>(6,852)</u>	<u>13,496</u>	<u>10,071</u>
Beginning Fund Balance	<u>12,067</u>	<u>142,632</u>	<u>10,178</u>	<u>33,063</u>
Ending Fund Balance	<u>\$59,185</u>	<u>\$135,780</u>	<u>\$ 23,674</u>	<u>\$43,134</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Community Center</u>	<u>Library</u>	<u>Museum</u>	<u>Debt Service</u>	<u>Cemetery Perpetual Care</u>	
\$ ---	\$ ---	\$ ---	\$122,023	\$ ---	\$ 175,076
---	3,280	---	---	---	3,280
---	---	---	---	---	---
---	3,500	---	---	---	3,500
---	---	---	---	---	121,904
---	27,798	---	---	---	27,798
13,732	6,955	9,427	1,362	66	35,695
17	42,155	7,915	---	---	90,414
<u>13,749</u>	<u>83,688</u>	<u>17,342</u>	<u>123,385</u>	<u>66</u>	<u>457,667</u>
---	---	---	---	---	34,464
---	---	---	---	---	58,801
26,575	151,347	13,921	---	---	236,732
---	---	---	7,020	---	8,999
---	66,007	---	---	---	141,016
---	---	---	80,000	---	80,000
---	---	---	13,365	---	13,365
<u>26,575</u>	<u>217,354</u>	<u>13,921</u>	<u>100,385</u>	<u>---</u>	<u>573,377</u>
<u>(12,826)</u>	<u>(133,666)</u>	<u>3,421</u>	<u>23,000</u>	<u>66</u>	<u>(115,710)</u>
19,460	162,645	---	---	---	241,643
---	(40,000)	---	---	---	(40,000)
<u>19,460</u>	<u>122,645</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>201,643</u>
6,634	(11,021)	3,421	23,000	66	85,933
54	133,726	123,341	86,344	1,739	543,144
<u>\$ 6,688</u>	<u>\$ 122,705</u>	<u>\$126,762</u>	<u>\$109,344</u>	<u>\$1,805</u>	<u>\$ 629,077</u>

PHILIP R. RUBLEY

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PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'s
& THE MICHIGAN ASSOCIATION OF C.P.A.'s

September 24, 2008

Honorable Mayor and
Members of the City Council
City of Hudson
121 N. Chursh St.
Hudson, Michigan 49247

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Hudson, Michigan as of and for the year ended June 30, 2008, which collectively comprise City of Hudson's basic financial statements and have issued our report thereon dated September 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we consider City of Hudson internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

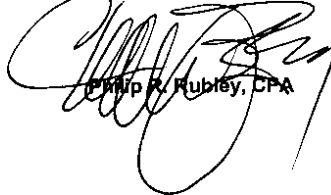
As part of obtaining reasonable assurance about whether City of Hudson financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Honorable Mayor and
Members of the City Council
City of Hudson
September 24, 2008

We noted certain other matters that we reported to management of City of Hudson in a separate letter dated September 24, 2008.

This report is intended solely for the information and use of the City of Hudson Management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Philip R. Rubley', is written over the printed name. The signature is stylized with large, sweeping loops.

Philip R. Rubley, CPA

PRR/cab

PHILIP R. RUBLEY

— Certified Public Accountant —

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September 24, 2008

Honorable Mayor and Members
Members of the City Council
City of Hudson
121 N. Church St.
Hudson, Michigan 49247

We have examined the financial statements of the City of Hudson, Michigan as of and for the year ended June 30, 2008 and have issued our report thereon dated September 24, 2008. As a part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the City's system of internal accounting control for the year ended June 30, 2008, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

Statement on Auditing Standards Pronouncement 112 requires us as auditors to communicate what we determine to be significant deficiencies and material weaknesses to management and those charged with governance in regards to internal control matters.

A significant deficiency is a control deficiency or combination of control deficiencies that creates the remote likelihood that a misstatement of the City's financial statements is more than inconsequential and will not be prevented or detected.

Based on the criteria we have no comments.

OTHER MATTERS FOR CONSIDERATION

These comments are not significant deficiencies but are suggestions to improve your existing accounting and control systems.

1. **BANK RECONCILIATIONS**

Adjustments need to be made monthly at the time the bank reconciliations are performed. Try to be more timely on reconciliations. If pooling creates continued problems, consider breaking down funds into certain bank accounts, etc.

2. **UTILITY FUND**

Continue to monitor fund, there has been an improvement, and your changes were not in effect for the full fiscal year.

3. **AMBULANCE FUND**

Periodical review of outstanding balances of accounts receivable should be made and a printout of aging accounts receivable balances should be maintained monthly supporting outstanding balances. Because of time sensitivity lost in collection will result without proper follow-up. The Ambulance Fund currently is in a fragile financial position. It is imperative that expenses are controlled and proper collection and billing be done timely.

4. **WHISTLE BLOWER POLICY**

Consider establishing a whistle blower policy for the City.

5. **LIBRARY**

All library holding and investments need to be in duplicate for the treasurer to properly reflect activity in the general ledger. There should be communication of CD activity and the City Treasurer should have a signature on the library investments.

6. **EFT**

Consider filing for your State Intergovernmental Revenues via electronic. This could help with cash flows because you will receive the payments earlier.

7. **CUSTODIAL CREDIT RISK**

Custodial credit risk is the risk that in event of a bank failure, the City's deposits may not be returned to it. Consider using additional institutions which provide FDIC insurance to reduce exposure to this risk.

Honorable Mayor and Members
Of The City Council
September 24, 2008
Page 3

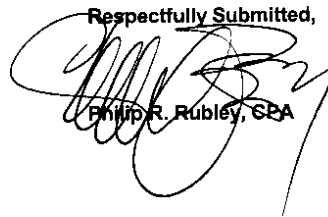
8. **SUMMER RECREATION**

Presently the summer recreation fund appears to be financially stable. However there are "league" funds combined with the City recreation program which creates this position. Consider breaking out the "league" funds to reflect the true position the City is in with the recreation program.

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated September 24, 2008 on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Philip R. Rubley', is written over the printed name.

Philip R. Rubley, CPA

PRR/cab